

Message Text

CONFIDENTIAL

PAGE 01 STATE 148801

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ORIGIN EB-11

INFO OCT-01 EA-11 ISO-00 FEA-02 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-03 INR-10

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EA - MR. EDMOND

EB - MR. ENDERS

FEA - MR. MALIN (SUBS)

ANALYSIS NOTE: RE-ENTERED TO ADD MISSING SPACES BETWEEN WORDS.

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA IMMEDIATE

C O N F I D E N T I A L STATE 148801

E.O.11652:GDS

TAGS:ENRG

SUBCT:ENERGY:DEMARCHE OPPOSIN

G HIGH OIL PRICES

REF: A) STATE 145990, B) JAKARTA 8350

1. WE APPRECIATE REFTTEL B CONTAINING CONSTRUCTIVE COMMENTS REGARDING THE DEMARCHE TO THE INDONESIAN GOVERNMENT ON HIGH OIL PRICES. WE CONCUR WITH YOUR SEEKING APPOINTMENTS WITH SJARIF THAJEB, SADLI, AND WIJARSO AND ACCEPT YOUR SUGGESTION THAT THE LATEST PRICE INCREASE BE RAISED IN THE CONTEXT OF
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PAGE 02 STATE 148801

ITS GLOBAL IMPLICATIONS. IN REQUESTING THE GOI TO

"RECONSIDER ITS PRICE INCREASE," WE DID NOT INTEND TO IMPLY A DENIGRATION OF INDONESIAN SOVEREIGNTY. WE RECOGNIZE THE UNLIKELIHOOD THAT INDONESIA WILL ROLLBACK ITS PRICES BECAUSE OF OUR REPRESENTATION. NEVERTHELESS, WE WANT TO MAKE CLEAR TO THE GOI THAT U.S. BELIEVES PRE-JULY 1 PRICES WERE ALREADY EXCESSIVE AND UNSUSTAINABLE, AND THAT ANY ADDITIONAL RISE, SUCH AS THE GOI RECENTLY ANNOUNCED, WAS UNWARRANTED. WE LEAVE TO YOUR DISCRETION HOW THIS IDEA CAN BEST BE FORMULATED IN THE INDONESIAN CONTEXT.

2. AS REQUESTED IN REFTTEL B, PARA 5, THE FOLLOWING ARGUMENTS ARE PROVIDED TO USE TO COUNTER EXPECTED INDONESIAN CONTENTIONS THAT (A) THE OIL PRICE TREND IS NOT REPEAT NOT TURNING DOWNWARD, AND (B) INDONESIAN PRICES ARE IN LINE WITH THOSE OF IRAN AND THE PERSIAN GULF STATES.

(A) THERE IS CONSIDERABLE EVIDENCE THAT THE INTERNATIONAL OIL MARKET IS SOFTENING. DEMAND IN THE INDUSTRIAL CONSUMING COUNTRIES HAS FALLEN FAR BELOW EARLIER PROJECTIONS. CONSEQUENTLY, STOCKS ARE NOW FULL AND TANKERS ARE BEING SLOWED DOWN. (THE NEED TO REBUILD STOCKS AFTER THE EMBARGO AND CUTBACK PARTIALLY DELAYED THE IMPACT OF REDUCED DEMAND ON PRICES.) DOWNWARD PRESSURE ON PRICE IS NOW CLEARLY MANIFEST IN THE SPOT MARKET. THE SPOT PRICES FOR CRUDE, WHICH MEASURE THE VALUE OF OIL TO THE MARGINAL BUYER, IS A GOOD INDICATOR OF THE OVERALL MARKET SITUATION. THE PRICE TREND LINE FOR SAUDI, IRANIAN, NIGERIAN, LIBYAN, AND OTHER CRUDES IS DEFINITELY DOWN. IN FACT, EVEN THOUGH LIBYAN CRUDE IS 25 CENTS-FIFTY CENTS LOWER IN PRICE THAN IN MAY, BUYERS ARE HARD TO FIND. IN THE EUROPEAN PRODUCTS MARKET, PRICES HAVE CONSISTENTLY FALLEN IN THE PAST SEVERAL WEEKS.

THE RECENT PRODUCER AUCTIONS HAVE DEMONSTRATED THAT THE MARKET DOES NOT SUPPORT THE HIGH PRICES SOUGHT BY THE EXPORTING COUNTRIES. ECUADOR, TUNISIA, AND IRAN RECEIVED BIDS CONSIDERABLY BELOW THEIR EXPECTATIONS. ACCORDING TO EARLY REPORTS, THE LARGER KUWAIT SALE, IN WHICH 1.25 MILLION BARRELS A DAY WERE OFFERED, DREW BIDS BELOW THE PRICE SOUGHT BY KUWAIT. THE COMPANIES

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 148801

OBTAINING BELIEVE THAT THEY CANNOT MARKET THIS HIGH PRICED OIL.

AS A RESULT OF THESE DEVELOPMENTS, A SMALL BUT GROWING SURPLUS OF OIL HAS APPEARED ON THE WORLD MARKET. THIS SURPLUS WILL GROW AND DOWNWARD PRESSURE ON PRICE WILL INCREASE. THEREFORE, UNDER CURRENT MARKET CONDITIONS, PRICES SHOULD BE FALLING RATHER THAN RISING.

(B) THE QUESTION IS NOT WHETHER THE PRICE OF ONE COUNTRY'S OIL EQUATES WITH THAT OF ANOTHER BUT WHETHER THE WORLD ECONOMY CAN WITHSTAND THE CONTINUED UPWARD TREND OF OIL PRICES. WE BELIEVE THAT ALL OIL PRICES ARE TOO HIGH; THAT IS WHY WE ARE MAKING REPRESENTATIONS TO INDONESIA AND OTHER OPEC STATES. (SIMILAR CABLES TO STATE 145990 HAVE BEEN OR ARE BEING SENT TO ALL OPEC STATES EXCEPT SAUDI ARABIA.) THE LEAP-FROG EFFECT OF ONE OIL EXPORTER RAISING PRICES TO MEET THOSE OF ANOTHER, WHO, WITH DIFFERENT PERCEPTIONS, RAISES HIS PRICES AIN LEADS TO AN UNENDING SPIRAL OF PRICE HIKES TO THE DETRI-MENT OF THE INTERNATIONAL ECONOMIC SYSTEM.

THE BUY-BACK ISSUE IS STILL UNDECIDED. THEREFORE, WE SUGGEST THAT, IF IT IS RAISED, YOU NOTE THAT KUWAIT HELD ITS RECENT AUCTION BECAUSE THE COMPANIES WOULD NOT PAY THE DESIRED BUY-BACK PRICE AND THAT THE KUWAITIS DID NOT GET THE PRICE THEY WANTED FROM THEIR OWN AUCTION.

3. IN MAKING YOUR DEMARCHE, YOU ARE AUTHORIZED TO USE THE TALKING POINTS IN REFTEL B AS AMENDED BY THE FOLLOWING:

(A) WITH THE INFORMATION PROVIDED IN PARA (2A) ABOVE, WE WOULD SUGGEST ADDING AS A SECOND SENTENCE IN REFTEL B'S PARA 6A TO THE EFFECT THAT "WE BELIEVE CURRENT MARKET CONDITIONS ATTEST TO THE FACT THAT OIL PRICES SHOULD BE FALLING RATHER THAN RISING." THEN YOU COULD BEGIN WITH YOUR SENTENCE ABOUT THE PRODUCERS NOT YET FINDING A FORMULA TO HELP LDC CONSUMERS.

(B) WHILE RECOGNIZING YOUR CONCERN OVER INDONESIAN REACTION WE THINK REFTEL B'S 6C MUST BE REVISED TO REFLECT
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PAGE 04 STATE 148801

OUR BELIEF THAT PRICES WERE TOO HIGH BEFORE THE LAST OPEC MEETING AND CONSEQUENTLY ANY NEW INCREASE IS TOO MUCH. WE DO NOT WANT TO CHARACTERIZE THE QUITO DECISION AS A "LEVELING TREND" SINCE IT DID RAISE PRICES, EVEN IF NOT AS MUCH AS SOME HAD FEARED. FURTHERMORE, WE WANT TO EMPHASIZE THAT THE NEW INCREASES COMPOUND THE SERIOUS WORLD PROBLEM CAUSED BY THE ENORMOUS AND ABRUPT PRICE INCREASES OF THE PAST 18 MONTHS.

4. PLEASE REPORT GOI REACTIONS TO YOUR REPRESENTATION. KISSINGER

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